

State of New Mexico
OFFICE OF THE STATE AUDITOR

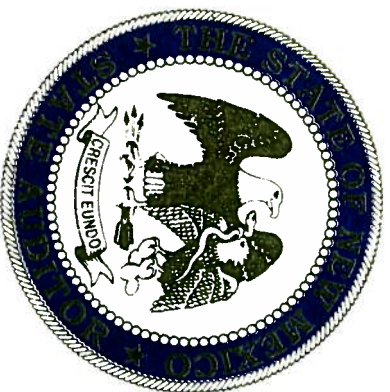
STATE OF NEW MEXICO

CHAVES

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005

(With Independent Auditor's Report Thereon)



Domingo P. Martinez, CGFM
State Auditor

2005A

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

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JUNE 30, 2005

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STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2005

<u>Board of Supervisors</u>	<u>Position</u>
Doug Whitney	Chairperson
Anthony Treat	Vice-Chairperson
LeRoy Lang	Secretary/Treasurer
W. E. (Bill) Bonham	Supervisor
John Sisk	Supervisor
Aubrey Dunn Jr.	Supervisor

<u>District Personnel</u>	<u>Title</u>
Joy Wagner	Administrative Assistant



State of New Mexico

OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

INDEPENDENT AUDITOR'S REPORT

Mr. Doug Whitney, Chairperson
and Members of the Board of Supervisors
Chaves Soil and Water Conservation District
1011 South Atkinson
Roswell, New Mexico 88201

We have audited the accompanying financial statements of the governmental activities, each major fund and the respective budgetary comparisons of the Chaves Soil and Water Conservation District (District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major of the District as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparisons for the general and special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the Management's Discussion and Analysis required by *GASB Statement No. 34* that the Governmental Accounting Standards Board has

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determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 10, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR

March 10, 2006

STATE OF NEW MEXICO
 CHAVES SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF NET ASSETS
 JUNE 30, 2005

	Governmental Activities
Assets	
Cash	\$ 306,370
Accounts receivable	696
Notes receivable	681,210
Total assets	988,276
Liabilities	
Accrued payroll	804
Noncurrent liabilities:	
Due within one year	39,145
Due in more than one year	753,124
Total liabilities	793,073
Net Assets	
Restricted for conservation loans	7,338
Unrestricted	187,865
Total net assets	\$ 195,203

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
 CHAVES SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Exhibit 2

	Governmental Activities
Program Expenses:	
Conservation:	
Personal services	\$ 43,411
Dues and subscriptions	2,375
Office and equipment	1,790
Bonding	225
Information and education	789
Travel	2,460
Workshops and meetings	1,021
Brush control	20,144
Cost share program	8,541
Depreciation	416
Interest	22,353
Total program expenses	103,525
Program Revenues:	
Charges for services	24,416
Total program revenues	24,416
Net program (expenses) revenues	(79,109)
General Revenues:	
NMDA allotment	9,775
Property taxes	88,699
Interest	27,383
Miscellaneous	100
Total general revenues	125,957
Change in net assets	46,848
Net assets - beginning	148,355
Net assets - ending	\$ 195,203

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
 CHAVES SOIL AND WATER CONSERVATION DISTRICT
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2005

Exhibit 3

	General Fund	Loan Fund	Total
Assets			
Cash	\$ 187,973	\$ 118,397	\$ 306,370
Accounts receivable	696	-	696
Note receivable	-	681,210	681,210
Total assets	\$ 188,669	\$ 799,607	\$ 988,276
Liabilities and Fund balances			
Liabilities:			
Accrued payroll	\$ 804	-	\$ 804
Total liabilities	804	-	804
Fund balances:			
Reserved for loans	-	10,717	10,717
Reserved for debt service	-	788,890	788,890
Unreserved, designated for subsequent year's expenditures	83,515	-	83,515
Unreserved, undesignated	104,350	-	104,350
Total fund balances	187,865	799,607	987,472
Total liabilities and fund balances	\$ 188,669	\$ 799,607	\$ 988,276

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Amounts reported for governmental activities in the Statement of Net Assets are different from the way they are reported in the Balance Sheet - Governmental Funds as follows:

Fund Balance - Balance Sheet (Exhibit 3)	\$ 987,472
Capital assets, net of accumulated depreciation	-
Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Noncurrent liabilities:	
due within one year	(39,145)
due in more than one year	<u>(753,124)</u>
Net Assets - Statement of Net Assets (Exhibit 1)	<u><u>\$ 195,203</u></u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
 CHAVES SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	Loan Fund	Total
Revenues			
State allocation	\$ 9,775	-	\$ 9,775
Property taxes	88,699	-	88,699
Chemical sales	24,416	-	24,416
Interest income	700	26,683	27,383
Miscellaneous	100	-	100
Total revenues	123,690	26,683	150,373
Expenditures			
Conservation:			
Current:			
Personal services	43,265	-	43,265
Dues and subscriptions	2,375	-	2,375
Office and equipment	1,790	-	1,790
Bonding	225	-	225
Information and education	789	-	789
Travel	2,460	-	2,460
Workshops and meetings	1,021	-	1,021
Brush control	20,144	-	20,144
Cost share program	8,541	-	8,541
Debt Service:			-
Principal payments	-	34,893	34,893
Interest payment	-	22,353	22,353
Total expenditures	80,610	57,246	137,856
Net change in fund balances	43,080	(30,563)	12,517
Fund balance - beginning	144,785	830,170	974,955
Fund balance - ending	<u>\$ 187,865</u>	<u>\$ 799,607</u>	<u>\$ 987,472</u>

The notes to the financial statements are an integral part of this statement.



Loan Fund				
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	
\$ -	\$ -	\$ -	\$ -	-
-	-	-	-	-
200	65	226	161	-
<u>50,000</u>	<u>50,000</u>	<u>101,155</u>	<u>51,155</u>	-
\$ <u>50,200</u>	\$ <u>50,065</u>	\$ <u>101,381</u>	\$ <u>51,316</u>	-
\$ -	\$ -	\$ -	\$ -	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>50,000</u>	<u>50,000</u>	<u>57,246</u>	<u>(7,246)</u>	-
\$ <u>50,000</u>	\$ <u>50,000</u>	\$ <u>57,246</u>	\$ <u>(7,246)</u>	-

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Chaves Soil and Water Conservation District (District) is organized under the provisions of the Soil and Water Conservation District Act (73-20-25 through 73-20-49 NMSA 1978). The District is a governmental subdivision of the state, a public body corporate and politic, organized for control and prevention of flood, sediment, and soil erosion damage, and to further the conservation, development and beneficial use of water and soil resources. The governing body of the District consists of five elected supervisors, four of whom must be landowners in the District. Two additional supervisors may be appointed to the District board. Supervisors serve a term of three years and continue in office until a successor is elected or appointed.

The financial reporting entity as defined by GASB 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations whose exclusion from the financial reporting entity would cause the financial statements to be misleading.

A primary government is any state government or general-purpose local government and the organizations comprising its legal entity. Although the District is organized as a subdivision of the State and administratively attached to the New Mexico State University, Department of Agriculture, the statutory powers of the District establish it as a primary government with a separate corporate and legal identity. The District has no component units, financially dependent affiliates, nor is it legally liable for actions of other agencies.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The District is required to implement GASB Statement No. 40, *Deposit and Investment Risk Disclosures* in fiscal year 2005. To enhance the usefulness of the financial statements, the significant policies of the District are summarized below.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities,

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

which rely to a significant extent on fees and charges for support. However, the District does not have any fiduciary or business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase chemical herbicides and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. The District received no grants and contributions during this fiscal year. Property taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

measurable and available only when cash is received by the government. The District does not have the information regarding the uncollected delinquent property taxes and thus has not recorded its share of this receivable as called for by GASB Statement 33.

The District reports the following major governmental funds:

The general fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Loan Fund is a special revenue fund accounts for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The special revenue fund was set up to account for the District's Low Interest Loan Program. The District receives low interest loans from the New Mexico Interstate Stream Commission (NMISC) to lend landowners in the District funds at low interest rates to finance conservation projects on their property pursuant to the provisions of Section 72-14-20 NMSA 1978.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity, if applicable, has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, Net Assets and Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be demand deposits and short term investments (certificates of deposit) with original maturities of six months or less from the date of acquisition.

State statutes authorize the District to invest in obligations of the U.S. Treasury, repurchase agreements, and certificates of deposit. Investments for the government, if applicable, are reported at fair value.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

2. Receivables and Payables

Accounts receivable consists of property taxes which are fully collectible. Property taxes attach an enforceable lien as of January 1. Taxes are payable in equal semi-annual installments on November 10 and April 10 of the subsequent year. The taxes become delinquent thirty days after the due date. The taxes are collected by the Chaves County Treasurer and Lincoln County Treasurer and are remitted to the District in the month following collection.

The District's accounts payable represent routine monthly bills for service rendered and products purchased in the current year and paid in the following year.

3. Notes Receivable

The District borrowed funds from the State of New Mexico Interstate Stream Commission for the purpose of having a program for conservation of water for irrigation purposes, and in turn, lend these funds to individual landowners in the District. The District's note receivable balance as of June 30, 2005 represents monies owed to the District by landowners for such projects promoting water conservation. The loan agreements between the District and its landowners are secured by a duly recorded mortgage or other legal encumbrance on the property, real or personal, of the landowner. The District considers the loans to be fully collectible and does not consider that an allowance for doubtful accounts is necessary at June 30, 2005.

4. Capital Assets

Capital assets, which include property, equipment (including software) are reported in the governmental activities column in the government-wide financial statements. Capital assets, are defined by state law as assets with an initial cost of \$1,000 and an estimated useful life of more than one year. The total amounts spent for construction, if any, are capitalized and reported in the government-wide financial statements. For donations, the government values these capital assets at the estimated fair value of the item at the date of acquisition. The cost of normal maintenance and repairs that do not add to the value or extend the life of the asset are not capitalized. The District has no infrastructure for the fiscal year.

Property and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

Farm Equipment	7 years
Computer equipment	5 years

5. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the District. All vacation pay is accrued when incurred in the government-wide financial statements. A current liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of resignations and retirements. According to District policy, employees accrue annual leave at 8 hours per pay period.

6. Notes Payable

The District entered into numerous loan agreements with the New Mexico Interstate Stream Commission for the purpose of lending funds to landowners in the District for water conservation projects. The loan agreements are for twenty years at an interest rate of 2 ½ percent per annum.

7. Net Assets and Fund Balance

The difference between the District's assets and liabilities is its net assets. The District's net assets consist of two components – unrestricted net assets and restricted net assets which include certain proceeds (Low Interest Loan from New Mexico Interstate Stream Commission), as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by agreement with the Interstate Stream Commission. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are reserved for repayments to the Interstate Stream Commission. The District also has \$83,515 of its fund balance that has been designated to balance the budget for the subsequent fiscal year.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

The budget is prepared on a basis that differs from accounting principles generally accepted in the United States of America (GAAP). GAAP basis revenues and

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

expenditures include accrued amounts. The revenues and expenditures reported in the budgetary comparisons are generally recorded on the cash basis. The District uses the following procedures to establish the budgeted amounts reflected in the budgetary comparisons:

1. Prior to April 1, the Budget Committee submits to the District Board of Supervisors a proposed revenue and expenditure budget for the fiscal year beginning July 1.
2. The Board reviews the budget proposal and makes any necessary adjustments.
3. Prior to June 1, the Board approves the budget by passing a resolution.
4. Prior to June 20, the approved budget is submitted to the State of New Mexico, Department of Finance and Administration, Local Government Division (DFA-LGD) for approval by the first Monday of September. The Board receives notice of the approved budget.

The legal level at which actual expenditures may not exceed budgeted expenditures is at the total fund level. The Board can revise its budget with the approval of DFA-LGD. Encumbrance accounting is not utilized by the District.

B. Reconciliation of Non-GAAP Budget to GAAP Basis Financial Statements

	General Fund	Loan Fund
Non-GAAP revenues (Exhibit 5)	\$ 123,664	\$ 101,381
Prior year receivables	(671)	-
Current year receivables	697	-
Current year loan proceed reclassification	-	(74,698)
GAAP revenues (Exhibit 4)	<u>\$ 123,690</u>	<u>\$ 26,683</u>
Non-GAAP expenditures (Exhibit 5)	\$ 80,536	\$ 57,246
Prior year payroll accrual	(730)	-
Current year payroll accrual	804	-
Current year loan reclassification	-	-
GAAP expenditures (Exhibit 4)	<u>\$ 80,610</u>	<u>\$ 57,246</u>

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

III. Detailed Notes on all Funds

A. Cash and Cash Equivalents

As of June 30, 2005, the District had a carrying amount of deposits of \$306,370. The bank balances for deposits were \$310,507. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$4,137. The total bank balance of \$310,507 consisted of the following:

<u>The Valley Bank of Commerce</u>	
Demand deposits	\$ 167,318
Less: FDIC coverage	(100,000)
Amount uninsured	<u>\$ 67,318</u>
50% collateral requirement	\$ 33,659
Pledged securities at par value	225,000
Over (Under) Collateralized	<u>\$ 191,341</u>

The following is a description of the pledged collateral that is held under joint safekeeping receipts in the name of the District at the Independent Bankers Bank in Dallas, TX, Rio Rancho NM ISD #94, CUSIP #767171FT3, 4% rate, and a maturity date of 8/01/2008.

<u>First Federal Bank</u>	
Demand Deposits	\$ 58,604
Less: FDIC coverage	(58,604)
Amount uninsured	<u>\$ -0-</u>
<u>First National Bank</u>	
Demand Deposits	\$ 76,911
Less: FDIC coverage	(76,911)
Amount uninsured	<u>\$ -0-</u>
<u>Pioneer Bank</u>	
Certificate of Deposit	\$ 7,674
Less: FDIC coverage	(7,674)
Amount uninsured	<u><u>\$ -0-</u></u>

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2005, none of the government's bank balance of \$310,507 was exposed to custodial credit risk. All of the District's deposits were insured by FDIC or were collateralized by securities held by the District's agent in the District's name.

B. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Description	Balance	Additions	Deletions	Balance
	06/30/04			06/30/05
Farm equipment	\$ 18,594	\$ -	\$ (18,594)	\$ -
Computer equipment	2,081	-	-	2,081
Sub-totals	20,675	-	(18,594)	2,081
Less: Accumulated Depreciation				
Farm equipment	(18,594)	-	18,594	(0)
Computer equipment	(1,665)	(416)	-	(2,081)
Net capital assets	<u>\$ 416</u>	<u>\$ (416)</u>	<u>\$ -</u>	<u>\$ (0)</u>

C. Long-Term Debt

Note Payable

The District entered into a loan agreement with the New Mexico Interstate Stream Commission on March 31, 1999 for the purpose of lending funds to landowners in the District for water conservation projects. The terms of the agreement are as follows:

Amount of loan	\$ 20,000
Interest	2 ½ percent per annum
Years	20 (Twenty years)
Yearly payment	\$ 1,283

The debt service requirements to maturity are as follows:

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

Due Date	Principal	Interest
07-01-06	\$ 908	\$ 375
07-01-07	931	352
07-01-08	954	329
07-01-09	978	305
07-01-10	1,002	281
2011-2015	5,399	1,016
2016-2019	<u>4,826</u>	<u>306</u>
Total	<u>\$ 14,998</u>	<u>\$ 2,964</u>

The District entered into a loan agreement with the New Mexico Interstate Stream Commission on August 29, 2002 for the purpose of lending funds to landowners in the District for water conservation projects. The terms of the agreement are as follows:

Amount of loan	\$ 20,000
Interest	2 ½ percent per annum
Years	20 (Twenty years)
Yearly payment	\$ 1,283

The debt service requirements to maturity are as follows:

Due Date	Principal	Interest
07-01-06	\$ 864	\$ 419
07-01-07	886	397
07-01-08	908	375
07-01-09	931	352
07-01-10	954	329
2011-2015	5,139	1,276
2016-2020	5,814	601
2021	<u>1,252</u>	<u>31</u>
Total	<u>\$ 16,748</u>	<u>\$ 3,780</u>

The District entered into a loan agreement with the New Mexico Interstate Stream Commission on September 10, 2002 for the purpose of lending funds to landowners in the District for water conservation projects. The terms of the agreement are as follows:

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

Amount of loan	\$ 250,000
Interest	2 ½ percent per annum
Years	20 (Twenty years)
Yearly payment	\$ 16,037

The debt service requirements to maturity are as follows:

Due Date	Principal	Interest
07-01-06	\$ 10,539	\$ 5,497
07-01-07	10,803	5,234
07-01-08	11,073	4,964
07-01-09	11,350	4,687
07-01-10	11,633	4,403
2011-2015	62,677	17,507
2016-2020	70,914	9,270
2021-2022	<u>30,910</u>	<u>1,164</u>
Total	<u>\$219,899</u>	<u>\$52,726</u>

The District entered into a loan agreement with the New Mexico Interstate Stream Commission on October 28, 2002 for the purpose of lending funds to landowners in the District for water conservation projects. The terms of the agreement are as follows:

Amount of loan	\$ 380,000
Interest	2 ½ percent per annum
Years	20 (Twenty years)
Yearly payment	\$ 24,376

The debt service requirements to maturity are as follows:

Due Date	Principal	Interest
06-30-06	\$ 15,629	\$ 8,747
06-30-07	16,020	8,356
06-30-08	16,420	7,956
06-30-09	16,831	7,545
06-30-10	17,251	7,124
2011-2015	92,946	28,932
2016-2020	105,161	16,719
2021-2023	<u>69,617</u>	<u>3,510</u>
Total	<u>\$349,875</u>	<u>\$88,889</u>

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

The District entered into a loan agreement with the New Mexico Interstate Stream Commission on September, 24 2003 for the purpose of lending funds to landowners in the District for water conservation projects. The terms of the agreement are as follows:

Amount of loan	\$ 195,000
Interest	2 ½ percent per annum
Years	20 (Twenty years)
Yearly payment	\$ 12,509

The debt service requirements to maturity are as follows:

Due Date	Principal	Interest
06-30-06	\$ 7,825	\$ 4,684
06-30-07	8,020	4,489
06-30-08	8,221	4,288
06-30-09	8,426	4,083
06-30-10	8,637	3,872
2011-2015	46,533	16,011
2016-2020	52,647	9,896
2021-2024	47,058	2,977
Total	<u>\$187,367</u>	<u>\$50,300</u>

Changes in Long-term Liabilities

Long-term debt activity for the year ended June 30, 2005 was as follows:

	Balance 6/30/04	Increases	Decreases	Balance 6/30/05	Amount due within 1 year
Note payable	\$ 823,782	\$ -	\$ (34,893)	\$ 788,889	\$ 35,765
Compensated absences	3,234	3,800	(3,654)	3,380	3,380
Totals	<u>\$ 827,016</u>	<u>\$ 3,800</u>	<u>\$ (38,547)</u>	<u>\$ 792,269</u>	<u>\$ 39,145</u>

Compensated absences are generally liquidated by the general fund.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

IV. Other Information

A. Employee Retirement Benefits

Plan Description. Substantially all of the District's full time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides retirement, disability and survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy. Plan members are required to contribute 7% of their gross salary. The District is required to contribute 7% of the gross covered salary. The contribution requirements of plan members and the District are established in Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the years ended June 30, 2005, 2004, and 2003 are \$2,411, \$2,178, and \$2,107 respectively, equal to the amount of required contributions each year.

B. Other Employee Benefits

The District does not offer a deferred compensation or post-employment benefits.

C. Risk Management

The District is exposed to various risks of loss due to torts, theft or damage of assets, errors and omissions and natural disasters. The District's supervisors and employees are covered by an errors and omissions liability policy purchased by the New Mexico State University, Department of Agriculture, to which the District is administratively attached. The limits for this policy are \$1,050,000 for each wrongful act and \$1,050,000 for the policy aggregated. The District is required to obtain a corporate surety bond on behalf of persons responsible for District assets. The District currently maintains a \$100,000 fidelity bond on its supervisors and employee. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

D. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

E. Related Party Transactions

The District Clerk's husband obtained a cost share loan from the District to finance the irrigation pipe. The note is for \$2,500 over 10 years, at an interest rate of 3.5% dated February 2, 2002. The loan was approved by the Board of Supervisors in the same manner as other cost share loan projects are approved.

One of the District's Board of Supervisors obtained a cost share loan from the District to finance the irrigation pipe and sprinkler system. The note is for \$60,000 over 10 years, at an interest rate of 3.5% dated March 1, 2004. The loan was approved by the Board of Supervisors in the same manner as other cost share loan projects are approved.

F. Joint Powers Agreement – Pecos River Salt Cedar Control Project

During the 2002 session, the New Mexico State Legislature appropriated \$2.5 million to the New Mexico Department of Agriculture to remove salt cedar from the Pecos River Basin. As a result of this appropriation, a joint powers agreement was established for this project. The terms of the agreement are summarized as follows:

Date of agreement:	June 24, 2002
Participants:	New Mexico Association of Conservation Districts and the Carlsbad, Chaves, Central Valley, Hagerman-Dexter, DeBaca, Penasco, Guadalupe, Upper Hondo, and Tierra Y Montes Soil and Water Conservation Districts
Responsible party for operations:	Carlsbad Soil and Water Conservation District
Description:	Pecos River Salt Cedar Control Project
Beginning and ending date of agreement:	July 1, 2002 to June 30, 2004
Total estimated amount:	\$4,366,666

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

Amount expended to date:	\$-0-
Audit responsibility:	New Mexico State University, New Mexico Department of Agriculture
Fiscal agent:	Carlsbad Soil and Water Conservation District
The government agency where revenues and expenditures are reported:	New Mexico State University



State of New Mexico

OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

Mr. Doug Whiney, Chairperson
and Members of the Board of Supervisors
Chaves Soil and Water Conservation District
1101 South Atkinson
Roswell, New Mexico 88201

We have audited the accompanying financial statements of the governmental activities, each major fund and the respective budgetary comparisons of the Chaves Soil and Water Conservation District (District) as of and for the year ended June 30, 2005 and have issued our report dated March 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as item 05-01.

This report is intended solely for the information and use of management, the New Mexico Office of the State Auditor, the New Mexico State University - Department of Agriculture, the state legislature and grantors and is not intended to be and should not be used by anyone other than these specified parties.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR

March 10, 2006

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005

STATUS OF PRIOR YEAR AUDIT FINDINGS

None.

CURRENT YEAR AUDIT FINDINGS

05-01. Actual Expenditures Exceeded the Approved Budget

Condition

Actual expenditures exceeded the approved budget by \$7,246 in the Loan Fund.

Criteria

All budgets for soil and water conservation districts are approved by the Department of Finance and Administration – Local Government Division (DFA-LGD) in accordance with Section 6-6-2 NMSA 1978. The District's expenditures cannot exceed the approved budget according to Section 6-6-6 NMSA 1978 which states: "When any budget for a local public body has been approved and received by a local public body, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof, and no official shall pay any check or warrant in excess thereof, and the allowances or claims or checks or warrants so allowed or paid shall be a liability against the officials so allowing or paying those claims or checks or warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of those officials."

Effect

Continued budget violations can lead to deficit fund balances, cash flow problems and claims against officials of the District.

Cause

The District underestimated the FY 05 expenditures for the Interstate Steam Commission Loan Program and did not submit a budget adjustment request to DFA-LGD.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005

Recommendation

The District should properly develop its annual budget in accordance with future plans and operations. If significant operating changes are anticipated, the District should revise its budget and obtain approval from DFA-LGD before any expenditures are incurred. The District should frequently monitor its expenditure accounts to ensure that actual expenditures do not exceed the approved budget at any time during the fiscal year.

District's Response

The District has developed its annual budget in accordance with future plans and operations with frequent monitoring to ensure actual expenditures do not exceed approved budget.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

EXIT CONFERENCE
JUNE 30, 2005

Financial Statement Preparation

The accompanying financial statements were prepared by the Office of the State Auditor. However, the contents remain the responsibility of the District.

Exit Conference

On March 10, 2006, an exit conference was held at the District Office with Aubrey Dunn, Jr., Board Supervisor and Mrs. Joy Wagner, Administrative Assistant of the Chaves Soil and Water Conservation District. Representing the Office of the State Auditor was Rosemary Whitegeese, Audit Supervisor.